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A quarterly Canadian newsletter produced by the Canadian member firms of Moore North America for the purpose of inspiring conversation and collaboration throughout Canada and beyond.

BUYING BEYOND THE BORDER: PURCHASING AND OWNING FOREIGN PROPERTY AS A CANADIAN

Owning foreign property can be an exciting and lucrative venture, but it also comes with unique challenges and obligations—especially for Canadian individuals and corporations. Whether you're purchasing property for personal use or as an investment, it's essential to understand the various tax and reporting requirements that come with foreign property ownership.

Determine the purpose and use of the property

The first step in purchasing foreign property is to determine its intended use. Are you buying it for personal and family use, or is it an investment property intended to generate rental income?

Personal use property

If the property is for personal use, the reporting requirements are relatively straightforward. Typically, there are no immediate reporting requirements in Canada or the foreign country if the property is solely for personal use. However, if you sell the property in the future, you may need to report any capital gains or losses on your Canadian tax return.

Investment property

If you're buying the property as an investment to generate rental income, there are more extensive reporting requirements to consider. You must report your rental income and expenses both in Canada and the country where the property is located.

Reporting requirements in the foreign country

As a Canadian owning foreign investment property, you are required to report the gross income earned from the property and any expenses incurred to the tax authorities in the country where the property is situated. This typically involves filing an annual tax return and paying any taxes due on the net rental income; however, always check the foreign reporting requirements or contact your advisor to ensure compliance.

Reporting requirements in Canada

Canada requires you to report your worldwide income, which includes any rental income from foreign properties. If the country where the property is located has a tax treaty with Canada, such as the United States, you can avoid double taxation by claiming a foreign tax credit on your Canadian tax return.

For example, if you owe $5,000 in taxes on your net rental income in Canada but have already paid $3,000 in taxes in the United States, you can claim a foreign tax credit for the $3,000 paid. This means you would only owe $2,000 in Canadian taxes on the same income.

Note: Foreign exchange should always be factored in when calculating foreign tax credits, so ensure you take the exchange rate into consideration when running these numbers.

Filing Form T1135

If you own foreign property that is not personal use property or real estate used in an active business, and the cost of your foreign property exceeds $100,000 CAD, you must file Form T1135—the Foreign Income Verification Statement—with your annual Canadian tax return. This form provides the CRA with information about your foreign property holdings. While it doesn't generate any tax liability, failing to file it on time can result in significant penalties—up to $2,500 per form.

Key considerations and best practices

Maintain proper documentation

Keeping detailed records of all income, expenses, and taxes paid in both countries is crucial. This documentation will support your tax filings and help avoid any issues during audits.

Understand tax treaties

Familiarize yourself with the tax treaty between Canada and the country where your property is located. These treaties can provide tax relief and prevent double taxation.

Consult with professionals

Given the complexity of foreign property ownership, it's wise to consult with tax and legal professionals who specialize in international real estate transactions. They can provide tailored advice and ensure compliance with all reporting requirements.

Purchasing and owning foreign property can be a rewarding experience, but it requires careful planning and adherence to tax laws in both Canada and the foreign country. By understanding the purpose of your property, maintaining proper documentation, and seeking professional advice, you can navigate the complexities of foreign property ownership with confidence.

If you have any questions about purchasing or owning foreign property or if you need assistance with your tax obligations, contact your advisor. They're here to help you make informed decisions and ensure compliance with all relevant regulations.

Article written by: Sean Stapleton, CPA, CA

SUSTAINABLE FINANCE IN THE REAL ESTATE SECTOR: AN IRREVERSIBLE TREND

As the world grapples with the realities of climate change, sustainability is gaining ground in the business world. The real estate sector is no exception, given that buildings are responsible for around 18% of Canada's greenhouse gas (GHG) emissions. Against this backdrop, sustainable finance is emerging as a new standard in the real estate industry, forcing players to turn the corner without further delay. However, the adoption of greener practices is proceeding at varying speeds.

Integrating environmental, social, and governance (ESG) criteria into business practices is gaining ground in Canada's real estate sector. However, perceptions of its importance vary among market players. While some are reducing their commitment in this area due to current economic pressures and payback periods, others recognize ESG issues as strategic levers for creating value. The benefits associated with more sustainable buildings are becoming increasingly evident. A better quality of life for occupants and reduced operating costs thanks to energy efficiency are just some of the tangible benefits for companies that take a proactive approach to sustainability and the environment.

Regulation as a driver of change

It has to be said that the pressure is on with the evolving regulatory framework. The 2015 adoption of the United Nations' **Sustainable Development Goals (SDGs)** and the **Paris Climate Agreement** has prompted governments worldwide to review their requirements. Canada has followed suit. Across the country, municipal governments are adopting policies that make environmental, social, and governance (ESG) standards mandatory in the real estate sector. Montreal, for example, has adopted a roadmap for decarbonizing its buildings by 2040. Toronto and Calgary have also adopted sustainable building policies. The adoption of Canada's **National Energy Code for Buildings (NECB)**, in force in several provinces, also marks a move towards mandatory consideration of ESG factors.

Real estate companies are also faced with new reporting and regulatory requirements. These include the standards the **International Sustainability Reporting Standards Board (ISSB)** set in 2023. These will have a direct impact on listed companies, but their influence will also be felt by unlisted companies, not least through the sustainability and climate-related information that some tenants will be seeking from property owners.

In their transformation towards sustainability, real estate companies are required to publish reports detailing their ESG performance in accordance with international standards, such as the Global Reporting Initiative (GRI) guidelines or the **Principles for Responsible Investment (PRI)**. Measuring progress, however, can prove complex, as some industry players deplore.

Added to this is pressure from institutional investors who, aware of the risks associated with unsustainable practices, are increasingly integrating ESG criteria into their investment decisions. Companies that fail to meet these standards risk being excluded from investment portfolios, with potentially significant financial repercussions.

Taking action

To accelerate their transition to a more sustainable approach and effectively integrate ESG criteria, companies in the real estate sector must first carry out a thorough assessment of the risks and opportunities associated with ESG criteria for their real estate portfolio.

This includes identifying climate (environmental) risks, social (social) impacts, and governance challenges that could affect asset value. This will enable the development of an integrated ESG strategy that defines clear and measurable sustainability objectives. ESG criteria must be fully integrated into the company's decision-making processes, from the design of real estate projects to their day-to-day operation and management.

The implementation of measurement systems will be essential for transparent reporting on progress. Companies also need to invest in training and skills development for their staff to familiarize them with ESG issues and industry best practices. This can involve awareness-raising programs, training sessions, and professional certifications focused on sustainability.

Navigating the complexity of ESG criteria, standards, and disclosure frameworks

In a context where capital markets are demanding greater disclosure of **environmental, social, and governance (ESG)** factors, companies must be more transparent than ever when it comes to extra-financial information. However, they face several challenges in meeting their obligations effectively.

First, they must determine which ESG factors are relevant to their business model. What are the most critical issues for the organization and its stakeholders? The list can be long, from building energy efficiency to employee health and safety, community relations, and sound governance structures, to name but a few.

Reliable and accurate data collection systems for all identified elements are also required for comprehensive coverage of ESG performance. Investors are looking for accurate data backed up by clearly defined objectives.

It is also crucial to focus on information that has a direct impact on the company's financial situation to capture their interest. Many deplore the fact that data is too often inconsistent and comparable.

Choosing the right reference framework for sustainable development

Companies must select the appropriate disclosure frameworks, which is no small task. As they multiply and constantly evolve, it's easy to get lost. Here's an overview of the leading frameworks and how they work.

Commercial Real Estate Appraisal System (GRESB)

The Global Real Estate Sustainability Benchmark (GRESB) is a platform used by property owners, investors, and managers to report and compare their ESG performance in a standardized way. It is aligned with international rating systems, such as the **Global Reporting Initiative (GRI)**, the **Task Force on Climate-related Disclosures (TCFD)**, and the United Nations **Principles for Responsible Investment (PRI)**.

GRESB evaluates companies' ESG performance in three categories: management, performance, and development. After validation by an external auditor, companies receive a score and a rating, which facilitates communication with stakeholders.

In addition, GRESB analyzes listed real estate companies through its Public Disclosure tool, assigning scores based on 22 relevant ESG indicators.

Global Reporting Initiative (GRI)

The GRI Standards are designed for public reporting in the business world on organizations' economic, environmental, and social impacts. They aim to ensure comparability, transparency, and accountability to stakeholders. The GRI standards are divided into four series of standards, which are either universal or specific to certain economic issues (anti-competitive behavior, economic performance, etc.), environmental issues (waste management, energy, water, etc.), and social issues (occupational health and safety, diversity, etc.).

Sustainability Accounting Standards Board (SASB)

SASB establishes sector-specific standards for the disclosure of environmental, social, and governance issues, covering 77 sectors. SASB standards are integrated into the International Financial Reporting Standards (IFRS) and the International Sustainability Standards Board (ISSB).

Science-Based Targets Initiative (SBTi)

The Science-Based Targets initiative recognizes companies that set science-based targets to reduce their carbon footprint in alignment with the goal of limiting global warming to 1.5°C. The SBTi process includes engagement, target development, validation, and reporting of annual progress.

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD encourages companies to disclose information on climate-related financial risks, focusing on governance, strategy, risk management, and metrics. The framework is incorporated into IFRS S1 and S2, introduced by the International Sustainability Reporting Board (ISSB).

Task Force on Nature-related Financial Disclosures (TNFD)

TNFD, aligned with TCFD, works on nature-related financial disclosure, helping companies to understand and manage nature-related risks and opportunities.

Companies must choose between these frameworks to report on their ESG progress. According to a study by Financial Executives International, a professional association for financial executives, 85% of companies use several disclosure frameworks. A structured, well-informed approach is, therefore, essential to navigate this complex environment.

Towards global standardization

In recent years, stricter regulations on the disclosure of sustainable finance information have been introduced around the world. With the implementation of the European Union's (EU) **Corporate Sustainability Reporting Directive (CSRD)** on January 1, 2024, companies are now held legally accountable for their environmental, social and governance (ESG) impacts.

Their first reports, based on data from the 2024 financial year, are expected in 2025. Due to the interconnectedness of markets, this directive will influence the operations and ESG disclosure practices of companies outside its borders, notably in North America.

And what are the new standards in Canada? Canada is also following suit. It has recently taken an important step towards standardizing and making comparable sustainability information. On March 13, 2024, the **Canadian Sustainability Reporting Standards Board (CSRB)** published its first draft standards for public consultation, marking a significant milestone in the creation of the Canadian Sustainability Reporting Standards (CSRS).

These new standards, NCID 1 and NCID 2, are largely aligned with IFRS S1 and S2. NCID 1 concerns general financial reporting requirements relating to sustainability, and NCID 2 concerns disclosures relating to climate change.

While we await the final version and entry into force of these draft ESG standards (expected in the coming months), Canadian companies need to prepare for their adoption, as they will be required to provide full disclosure on sustainability opportunities and risks from January 2027.

However, meeting all these requirements is difficult for organizations. North American and European investors have called for unified global standards and a consistent framework for ESG disclosure and assessment, which would ensure the quality and verifiability of reports.

To be continued.

ESG reporting: the growing importance of double materiality

Numerous regulations and international standards, such as those promoted by the Global Reporting Initiative (GRI) and the countries of the European Union, now include the concept of double materiality in ESG reporting. This is encouraging companies to adopt this approach to comply with new regulatory requirements. Double materiality analysis is, however, demanding for organizations.

Adopted by the world of **CSR (Corporate Social Responsibility)** in 2006 with the GRI, the concept enables a company's CSR issues to be ranked in order of priority. Generally speaking, financial or simple materiality is applied. It focuses on the impact of social and environmental issues on a company's economic performance. For example, by reducing its greenhouse gas emissions, a company can improve its brand image and attract investors, which has a positive financial impact and offers a competitive advantage. However, implementing this approach is problematic for social and environmental topics, as some important information can be overlooked.

In addition to identifying the significant issues that can influence the decisions of financial players, double materiality looks at the negative and positive impact of a company's activities on the environment and society. It assesses how the company's actions affect the various stakeholders. For example, suppose a real estate company is building a housing complex on a former industrial site. In that case, it must consider environmental risks, i.e., the impact on local ecosystems, workers' health, environmental quality, etc.

Opposing visions

Dual materiality is a concept supported by the European Union, notably through the European Financial Reporting Advisory Group (EFRAG), with data disclosure for multi-stakeholder use (investors, customers, local communities, the environment, etc.). It will also be at the heart of the application of the Corporate Sustainability Reporting Directive (CSRD). The International Sustainability Standards Board (ISSB), on the other hand, favors a purely financial approach aimed primarily at investors.

Nevertheless, dual materiality offers significant advantages for companies committed to sustainability and social responsibility. With this approach, companies can identify gaps in their ESG approach. This encourages them to improve their practices and strengthen their performance and sustainable development. By knowing the expectations of its stakeholders, a company can also communicate more relevantly and transparently, reinforcing the trust of the entire ecosystem towards it. In short, dual materiality helps them align their actions with the needs of society and the environment while remaining financially viable.

Article written by: [Demers Beaulne]

ARTIFICIAL INTELLIGENCE IN PUBLIC ACCOUNTING

"Are we done yet?" is a popular rhetorical question that partners often pose at the end of audit planning meetings to humorously acknowledge the never-ending and labour-intensive nature of audit engagements. Perhaps it was meant to lighten the mood after a long, serious discussion about fraud risks and control deficiencies. However, with the development of artificial intelligence (AI), what was once rhetorical may soon become a genuine inquiry.

Efficiency can be gained in audit automation, fraud detection, and predictive analytics:

- AI-powered audit software automates repetitive tasks such as data entry, transaction testing, and reconciliation. These tools use machine learning algorithms to analyze large volumes of financial data, identify anomalies, and flag potential risks. This automation improves audit efficiency, reduces errors, and allows auditors to focus on higher-value activities such as data interpretation and client advisory.

- AI software in public accounting includes advanced fraud detection systems that analyze transaction patterns, vendor relationships, and financial anomalies to identify potential fraudulent activities. Machine learning algorithms can detect irregularities that may go unnoticed by traditional methods, enhancing the effectiveness of fraud detection measures. One example is addressing the risk of management overrides, which traditionally is tested by examining manual journal entries.

- AI-driven predictive analytics tools forecast financial trends, cash flow projections, and budget variances based on historical data and market trends. Public accountants can use these insights to provide strategic advice to clients, optimize financial planning, and mitigate risks proactively.

Looking up sections of the handbook and the Income Tax Act may no longer be such a manual process, as AI technologies can help public accountants stay ahead of regulatory changes and compliance requirements. Natural Language Processing (NLP) and machine learning algorithms can parse through complex legal and regulatory texts to inform auditors of the evolving standards.

I digress, but reflecting on these advancements, one might even envision a futuristic sci-fi movie set within an accounting firm, exploring the dynamic interplay between AI and human professionals amidst these transformative developments.

While AI offers numerous benefits to the public accounting sector, its implementation is not without challenges. Examples include data privacy and security concerns, ethical and bias issues, dependence on quality data, and dependence on technology, to name a few. Furthermore, it will profoundly impact how firms recruit and cultivate their talent. These topics may be further explored in a future newsletter.

Article written by: Judy Cheng CPA, CA, MAcc

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